

Year of the interest rate turnaround



During 2022, no topic was as decisive for the financial markets as the change of direction in interest rates. Since the U.S. subprime crisis in 2007 to 2009, stock markets, led by the U.S. Fed, have been dominated by sharply falling central bank interest rates.

While most central banks maintained an interest rate of zero, the European Central Bank even set interest rates to nominal negatives. While the European Central Bank thus helped the highly indebted euro countries, it also caused serious damage to the European banking industry. The timely exit from the negative interest rate policy failed because central bankers in Frankfurt did not attach any long-term importance to the risk of inflation and gave priority to other issues (financing of the southern states, climate change, gender equality). Only when inflation was obvious and the citizens of the euro zone were confronted with double-digit losses in purchasing power did awareness slowly dawn that the ultra-loose monetary policy could no longer be maintained. In the

meantime, key interest rates in the euro zone are at 2.5% and the dramatic loss of prosperity for citizens has been sealed. Positive real interest rates have not existed for many years. In the meantime, the ECB is attempting to regain at least some of the lost trust by announcing further interest rate hikes and adopting a correspondingly critical tone. In view of currency devaluation rates of around 10%, this remains a difficult undertaking. On balance, the ultra-cheap money has led to far-reaching misallocation of capital, which in the meantime has led to gigantic speculative exaggerations in the real estate market, virtual crypto coins, SPACs and Internet stocks, for example.

Significant interest rate movements may have consequences

for stock markets. After all, cheap money has provided a strong tailwind for the equity market over more than ten years, sometimes resulting in astronomical valuations. On balance, stock markets have reacted to the rapid rise in interest rates with significant price declines. So-called growth stocks in particular suffered severe setbacks, having previously led the more than ten-year upward trend on stock markets. American stocks lost considerably more in 2022 than their European counterparts. The representative S&P 500 index lost almost 20% of its value over the year, while the Nasdaq index lost 33%. Even the formerly highly revered FAANG stocks took a beating. The Facebook parent company Meta Platforms, for example, suffered a price slump of about

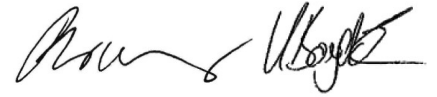
64%, Amazon.com halved its value, and Tesla was finally sucked into the downward spiral. Japanese shares fared much better, losing only 4% in the last twelve months, as measured by the representative TOPIX index. Admittedly, this is little reason to cheer for investors in the euro area, as the Japanese national currency, the yen, depreciated by no less than 8% against the euro. The European single currency, on the other hand, lost almost 6% against the US dollar during the year. It is surprising that oil prices have not risen more strongly over the year in view of the Ukraine war. At the end of the year, Brent crude was just 4% higher than a

year ago. However, the war in Ukraine led to significant price increases for natural gas and coal, as well as for iron ore and nickel, to name just a few commodities.

The seven LOYS funds were unable to escape the bear market and posted heterogeneous results. The best performing fund was LOYS Global MH, which ended the year down 9%. Although the macroeconomic data for the coming year is by no means all rosy, the sometimes very unusually attractive valuations and determined entrepreneurial action at a number of companies give the fund management a portion of optimism for the new year.

Sincerely yours,

Fund managers and co-investors



Dr. Christoph Bruns Ufuk Boydak

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